

Committee on Ways and Means

Medicare Prescription Drug, Improvement, and Modernization Act of 2003

Seniors Will Pay Less for Drugs Under Medicare Bill

Drug Costs Are Increasing at Rapid Rates.

- In testimony to the Ways and Means Committee in April 2003, Douglas Holtz-Eakin indicated CBO expects that over the next decade, “spending for prescription drugs by and on behalf of the Medicare population will total roughly \$1.8 trillion, or nearly 50 percent of the projected \$3.9 trillion in Medicare outlays over that same period.”
- Over that period, CBO expects Medicare beneficiaries' average spending for prescription drugs to climb at an average annual rate of about 9 percent – and that is without a Medicare drug benefit.

How The Conference Report Helps.

Group Purchasing and Insurance Benefit

- The Department of Health and Human Services states that the drug benefit would provide real relief for seniors; those who now pay full retail prices could see their prescription drug spending reduced by as much as 25 percent, and their overall out-of-pocket drug spending could fall by as much as 77 percent—in exchange for a premium of about \$35 per month.
- Group purchasing will help seniors, who are among some of the only purchasers of drugs who buy as individuals. Importantly, the bill repeals a Medicaid price control thereby enabling Medicare beneficiaries to benefit from steeply discounted drugs. Last year CBO estimated this provision saved \$18 billion in lower prices.
- Today, the 75-25 coverage offered under the initial benefit greatly reduces the price seniors will pay for prescriptions.
- Low-income seniors below 150 percent of poverty, get an even greater benefit, including help with both the premium and the initial cost-sharing. There is no gap in coverage for low income seniors – about 35 percent of all seniors.

Reform of Hatch/Waxman Drug Pricing Laws:

- The bill includes numerous provisions to speed market entry of cheaper generics.
- The agreement would provide brand drug companies only one 30-month stay on the approval of a generic competitor.
- Generics would be forced to forego their 180-day generic exclusivity if they do not bring a product to market within a specified time period.

- These reforms would end Hatch/Waxman loopholes and would save billions for all consumers, not just seniors.

Discount Card

- The drug discount cards available in 2004 and 2005 may only be sold if they pass savings on to seniors, including program discounts, rebates, and other price concessions.
- The Department of Health and Human Services estimates that these discount cards can save up to 15-25 percent at the pharmacy.

Low Income, Transitional Drug Assistance

- The drug card also provides low-income beneficiaries \$600 of assistance per year for 2004 and 2005.

AWP Reform

One of the most insidious ways seniors pay high cost for drugs is for those Medicare already covers through Part B.

- Under the current payment system, drugs delivered in a physician's office are paid at 95 percent of the Average Wholesale Price, or AWP.
- AWP is a made-up number submitted by the drug companies. The AWP vastly exceeds the actual cost paid by doctors to get these drugs.
- GAO testified last year that drugs are routinely available for far less than AWP, indicating that Medicare's payments for these drugs "were at least \$532 million higher than providers' acquisition costs in 2000." And GAO projected even higher given the hidden rebates and discounts offered to doctors.
- Because seniors pay 20 percent co-insurance, either directly or through higher Medigap premiums, overpayments for drugs paid under the AWP schedule add hundreds of millions to seniors' drug spending each year.
- The conference report ends these abuses by paying actual market prices for currently covered drugs.